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Message Text

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21
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 XMB-04

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R 272036Z FEB 76
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8970

UNCLAS OTTAWA 820

POUCHED ALL CONSULATES IN OTTAWA
E.O. 11652: N/A
GOWU ETRD, CA
SUBJ: FINMIN MACDONALD ANNOUNCES DROPPING OF EXPORT LEVY FROM ANTI-INFLATION PROGRAM

REF: A. OTTAWA 637 B. OTTAWA 455 C. OTTAWA 5767, DEC 19

1. FINMIN MACDONALD ANNOUNCED IN PARLIAMENT LATE THURSDAY (FEB 26) THAT FEDERAL GOVERNMENT WOULD NOT PROCEED WITH PROPOSED EXPORT LEVY MEASURE. (AS ORIGINALLY PROPOSED, LEVY WOULD APPLY TO "EXCESS" PROFITS OF COMPANIES WHOSE PRODUCTS RECEIVED HIGHER PRICES ON INTERNATIONAL MARKETS THAN IN CONTROLLED DOMESTIC MARKET.) MACDONALD CITED OPPOSITION TO LEVY FROM PROVINCIAL GOVERNMENTS WHICH EXPRESSED CONCERN TO HIM THAT EXPORT LEVY WOULD INHIBIT EXPORT SALES AND DISCOURAGE CAPITAL INVESTMENT.

2. MACDONALD SAID ANTI-INFLATION BOARD WOULD MONITOR PROFITS OF EXPORTING FIRMS AND GOVERNMENT WOULD AGAIN REVIEW QUESTION OF IMPOSING LEVY IF "THERE IS EVIDENCE OF EXCESS EXPORT PROFITS".
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3. FOLLOWING IS TEXT OF MACDONAL STATEMENT IN HOUSE OF COMMONS: BEGIN QUOTE. MR. SPEAKER, I WOULD LIKE TO MAKE A BRIEF STATEMENT ON THE EXPORT LEVY WHICH THE GOVERNMENT PROPOSED LAST FALL AS PART OF THE ANTI-INFLATION PROGRAM.

AS HONOURABLE MEMBERS ARE AWARE, THE PROPOSED FEATURES OF THIS LEVY WERE TABLED LAST DECEMBER 18, AND CONSULTATION ON THE MEASURES WAS INVITED. SINCE THAT TIME, THE GOVERNMENT HAS RECEIVED REPRESENTATIONS FROM MANY INTERESTED PARTIES, BOTH ABOUT THE GENERAL NATURE OF THE LEVY, AS WELL AS ITS PRECISE DETAILS. IN PARTICULAR, THE MATTER WAS DISCUSSED EXTENSIVELY AT THE MEETING WITH PROVINCIAL FINANCE MINISTERS ON FEBRUARY 2, AND I UNDERTOOK AT THAT TIME THAT I WOULD RECONSIDER THE LEVY AND DISCUSS IT FURTHER WITH MY COLLEAGUES IN THE FEDERAL CABINET.

UNDER THIS PROPOSAL, EXPORTERS WOULD REMAIN FREE TO SEEL AT INTERNATIONAL PRICE LEVELS SO THAT CANADA WOULD GAIN THE ADVANTAGE OF ANY INCREASE IN THE VALUE OF CANADIAN PRODUCTS ON WORLD MARKETS. IN THE INTEREST OF EQUITY, HOWEVER, IT WAS ALSO PROPOSED THAT ANY PROFITS OF CANADAIAN EXPORTERS IN EXCESS OF THE GUIDELINES APPLYING TO FIRMS SELLING IN THE DOMESTIC MARKET BE SUBJECT TO A SPECIAL LEVY. UP TO 90 PERCENT OF THE LEVY COULD BE REFUNDED TO COMPANIES TO HELP FINANCE NEW CAPITAL INVESTMENT IN PRODUCTINE FACILITIES AND OTHER SPECIFIED PROJECTS.

FROM THE STANDPOINT OF EQUITY, THE GOVERNMENT FELT THAT WITH RESPECT TO THE WORK FORCE OF EXPORTING FIRMS, OR WITH RESPECT TO FIRMS IN CANADA WHICH SELL ONLY TO THE CANADIAN MARKET, BOTH OF WHICH WOULD BE SUBJECT TO RESTRAINTS UNDER THE CONTROL PROGRAM, SOME BALANCE WAS NECESSARY WITH RESPECT TO EXPORTING FIRMS WHICH IF UNCONTROLLED WOULD HAVE THE POSSIBILITY OF ECHIEVING SUBSTANTIAL PROFIT INCREASES DURING THE CONTROL PERIOD. WHILE IT WOULD BE DIFFICULT TO ACHIEVE AN EXACT BALANCED TREATMENT IT WAS FELT THAT THE LEVY WOULD AT UNCLASSIFIED

LEAST PROVIDE A MORE EVEN TREATMENT AS BETWEEN EXPORTING FIRMS AND OTHERS IN CANADA WHO ARE SUBJECT TO THE RESTRAINT PROGRAM.

THE FOREGOING ARGUMENT HAS NOT COMMENDED ITSELF TO A MAJORITY OF PROVINCIAL GOVERNMENTS IN CANADA, WHO ARE REPRESENTATIVE OF ALL PARTIES AND ALL REGIONS. AT THE FEDERAL-PROVINCIAL CONFERENCE AND SINCE, SEVERAL

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PROVINCIAL GOVERNMENT HAVE EXPRESSED TO ME THEIR CONCERN THAT THE EXPORT LEVY MIGHT DISCOURAGE THE INITIATIVE TO ACHIEVE GREATER EXPORTS FROM CANADA AT A TIME WHEN THE REVIVAL OF CANADIAN EXPORT SALES IS OF CRITICAL IMPORTANCE TO REGIONAL AND NATIONAL ECONOMY. THEY EXPRESSED THE CONCERN THAT THE LEVY COULD ADD FURTHER UNCERTAINTY TO INVESTMENT DECISION IN CANADA AND MIGHT DISCOURAGE NEW CAPITAL INVESTMENT. THIS DESPITE THE PROVISIONS IN THE PROPOSAL FOR REFUNDING EXCESS PROFITS FOR THE PURPOSE OF INVESTMENT. CLEARLY ANY MEASURE THAT MIGHT HAVE AN ADVERSE IMPACT ON FURTHER INVESTMENT IN CANADA OR MIGHT CHECK OUR PURSUIT OF MARKETS ABRIAD WOULD NOT BE IN THE INTEREST OF ANYONE, NEITHER EXPORTERS, THEIR EMPLOYEES, GOVERNMENTS, NOR CONSUMERS.

I THEREFORE WISH TO ANNOUNCE THE GOVERNMENT'S DECISION NOT TO PROCEED WITH THE EXPORT LEVY MEASURE. THE ANTI-INFLATION BOARD WILL BE ASKED TO MONITOR PROFITS OF EXPORTING FIRMS, AND WHERE EXCESS EXPORT REVENUES ARE GENERATED, THE WAY IN WHICH THEY ARE RE-INVESTED. IF THERE IS EVIDENCE OF EXCESS EXPORT PROFITS, OR EVIDENCE THAT THEY ARE NOT BEING RE-INVESTED, THE MATTER WILL AGAIN BE REVIEWED BY THE GOVERNMENT.

AT THE SAME TIME, THE GOVERNMENT WILL FOLLOW DEVELOPMENTS IN THE CANADIAN ECONOMY FOR SIGNS OF DIVERSION OF GOODS TO EXPORT MARKETS AT THE EXPENSE OF ADEQUATE DOMESTIC SUPPLY. THERE IS LITTLE PROSPECT OF THIS DEVELOPING IN THE NEAR FUTURE IN VIEW OF THE EXTRA PRODUCTIVE CAPACITY AVAILABLE IN MOST SECTORS, BUT THE GOVERNMENT WILL BE PREPARED TO ACT IF SPECIAL SITUATIONS ARISE.
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IN VIEW OF THE FACT THAT THE EXISTING ANTI-INFLATION REGULATIONS HAD ANTICIPATED THE INTRODUCTION OF AN EXPORT LEVY, A NUMBER OF CONSEQUENTIAL AMENDMENTS TO THE REGULATIONS WILL BE REQUIRED. IN PARTICULAR, EXPORT SALES WILL GENERALLY BE EXEMPT FROM THE DOMESTIC GUIDE-LINES; HOWEVER, WHERE A FIRM VOLUNTATILY CUTS BACK ON SUPPLYING ITS CANADIAN CUSTOMERS IN FAVOUR OF FOREIGN CUSTOMERS, THE DIVERTED EXPORT SALES WILL BE REGARDED AS RESULTING IN EXCESS REVENUES AND WILL BE VIEWED AS A CONTRAVENTION OF DOMESTIC GUIDELINES.

MR. SPEAKER, AS I HAVE HAD THE OCCASION TO STATE MANY TIMES BOTH INSIDE AND OUTSIDE THE HOUSE, WE BELIEVE THAT THE APPLICATION OF THE ANTI-INFLATION PROGRAM

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SHOULD BE AS RESPONSIVE AS POSSIBLE TO THE CONCERNS OF THE PROVINCIAL GOVERNMENTS WHICH ARE PARTICIPATING IN THE PROGRAM AND TO ALL THOSE IN CANADA WHO WILL BE AFFECTED BY IT. RECENT DEVELOPMENTS HAVE INDICATED THAT THERE ARE OTHER AREAS OF THE PROGRAM WHICH ALSO REQUIRE SOME IMPORTANT CHANGE, PARTICULARLY THE NEED TO ENSURE THAT PEOPLE'S RIGHTS REMAIN FULLY PROTECTED. THESE ISSUES ARE NOW UNDER REVIEW AND I HOPE TO BE ABLE TO REPORT TO YOU WITHIN THE NEXT WEEK OF TWO ON A NUMBER OF OTHER CHANGES WHICH WILL FURTHER IMPROVE THE OPERATION OF THIS PROGRAM. END QUOTE. ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CUSTOMS DUTIES, ANTIINFLATIONARY PROGRAMS, INVESTMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OTTAWA00820
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760075-1029
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976025/aaaaadpi.tel
Line Count: 180
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 OTTAWA 637, 76 OTTAWA 455, 76 OTTAWA 5767
Review Action: RELEASED, APPROVED
Review Authority: castelsl
Review Comment: n/a
Review Content Flags:
Review Date: 19 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 JUL 2004 by schwenja>; APPROVED <07 SEP 2004 by castelsl>
Review Markings:

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US Department of State
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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINMIN MACDONALD ANNOUNCES DROPPING OF EXPORT LEVY FROM ANTI-INFLATION PROGRAM
TAGS: ETRD, CA, (MACDONALD, DONALD)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006